

## Translation

Ref. EW/010/133/11

3<sup>rd</sup> March, 2011

The President

The Stock Exchange of Thailand

Re: Year 2010 Management Discussion and Analysis

Attachment: Year 2010 Management Discussion and Analysis

Dear Sir,

In order to give a better understanding of Year 2010 operations and financial status of Eastern Water Resources Development and Management Public Company Limited. We would like to present the Year 2010 Management Discussion and Analysis which is shown as the attachment.

In addition, the analytical results should be considered parallelly to Year 2010 financial statement which was disclosed to public.

Please be informed accordingly.

Sincerely yours,

Praphant Asava-aree

President & CEO

Investor Relations Department

Tel : 02-272-1600 Ext 2317

## Translation

### Management Discussion and Analysis for the accounting year 2010

#### **1. Profit and Loss Analysis/ Overall Operating Result**

For the accounting year 2010, the Company and subsidiaries reported net profits of Baht 908.94 million, an increase of Baht 101.23 million or 12.53%, from the same period of 2009. The Company reported EBIT of Baht 1,380.49 million, an increase of Baht 130.09 million or 10.40% YOY with EBITDA of Baht 1,781.92 million, an increase of Baht 194.83 million or 12.28%, which can be broken down into:

##### **1.1 Revenue**

During 2010, the Company and subsidiaries reported total revenue of Baht 4,674.80 million, an increase of Baht 1,796.30 million or 62.40%, from the same period during the previous year due to the sales growth of raw water and tap water. The Company also transfer a project asset for sales and receive full payment for the Pra Sae to Klong Yai pipelining project, valued Baht 1,567.29 million. The revenue breakdown is as follows :

- **Revenue from raw water business**

Revenue from raw water business rose Baht 213.14 million, or an increase of 11.19% from the previous year, as the Company sold more raw water. During 2010, the Company sold 22.98 million cubic meters higher than the same period in the previous year, or an increase of 10.99%. An average price of raw water of all areas was at Baht 9.10/cubic meter.

- **Revenue from tap water business**

The revenue from the tap water business increased by Baht 80.30 million or by 12.63%. The tap water distribution volume increased by 11.07% from the sales volume of 58.91 million cubic meters during 2010. The growth was from both existing and new customers. The Company also started distributing water to Chonburi Waterworks from April 2010. The Company sold 5.06 million cubic meter of tap water to Chonburi Waterworks during 2010, worth a total of Baht 49.30 million. The tap water sales of Rayong Waterworks also increased by 0.73 million cubic meters, which resulted in a Baht 11.62 million increase.

- **Revenue from the sales of project assets**

The Company has transferred asset for sales namely Pra Sae to Klong Yai pipeline project and recognized revenue from the asset sales on 2 April 2010 and 8 April 2010, respectively. The total project was valued 1,567.29 million.

- **Rental and service revenue**

Rental and service revenue declined by Baht 50.10 million, or 17.74%, as a subsidiary's water management contract with the Pattaya Waterworks was expired in 2009 and "the Ommnai-Sampran-Samut Sakorn Waterworks" in February 2010, respectively. Also, the project values of the Patumthani-Rangsit Waterworks and Metropolitan Waterworks Authority (MWA) were reduced, which caused a Baht 73.90 million decline in water management fee in 2010. However, the building and office rental revenue improved by Baht 20.87

million from the previous year as the numbers of tenants increase with occupancy rate of 99.40% of total leasable area.

- **Other income**

Other revenues decreased by Baht 10.97 million, or 34.22%, from the same period during the previous year, as a subsidiary has reversed an expense, previously recorded as an accrued, but later found that the amount could not be claimed as the case expire, valued Baht 10.70 million.

## 1.2 Expenses

During 2010, the Company and subsidiaries have total expenses of Baht 3,294.31 million, an increase of Baht 1,666.21 million or 102%, from the same period in the previous year, mainly due to the cost of selling a project asset of Baht 1,507.46 million. The detail is as follows :

- **Costs of sales: raw water**

Cost of raw water business increased Baht 123.30 million or 17.92% mainly due to the sales volume increased by 10.67%. Additionally, the accounting depreciation method of the pipelines was changed from unit-of-production method to straight line method, which resulting in a depreciation expense increase of Baht 60.13 million for the 12-month period ending 31 December 2010. The raw water and electricity expenses increased by Baht 3.23 and 45.20 million, respectively, resulted from 10.99% increase in raw water sales volume.

- **Costs of sales: tap water**

Cost of tap water business increased Baht 73.34 million or 22.14%, mainly due to the sales volume increase at 11.07%, as the company recognize the expenses from selling 5.06 million cubic meter of tap water to Cholburi Waterworks from April 2010, valued Baht 44.38 million. The expenses from Rayong Waterworks increased by Baht 7.33 million as the sales volume increased by 0.73 million cubic meters.

- **Costs from selling project assets**

The company recognized the cost of sales from pipelining project Pra Sae to Klong Yai Reservoir, in which the company transferred assets and received full payment on 2 April 2010 and 8 April 2010, respectively. The total cost were at Baht 1,507.46 million.

- **Rental and service costs**

The rental and service costs decreased by 33.40 million Baht, or 13.92%, as the service engineering contracts expired. However, the rental expenses increased by Baht 23.46 million as the tenants increased and the recognition of additional depreciation expenses of Baht 1.35 million after the civil court delivered its judgment on a lawsuit between the company and a building contractor.

- **Selling expense**

The Selling expenses increased by Baht 8.35 million, representing 20.22% as the Company continue to develop relationship with clients through Customer Relationship Management (CRM) activities, such as arranging thanking party to meet clients and take any feedback as well as the corporate PR activities

through various medias to increase the company's recognition on the CSR projects. However, those costs increase was in line with the budget plan.

- **Administration expense**

The administration expense decreased by Baht 10.43 million or 4.79% due to the company continued cost control effort.

- **Expenses for life quality and environmental development**

The expenses for life quality and environmental development increased Baht 12.95 million, or 59.84%, as the Company foresee the risk of drought that may widely affect the people and the Company's water reserve. The Company, in early 2010, supported the Eastern Royal Rain Project and the Royal Rain and Aviation for Agriculture Fund to make artificial rain to reduce damage from drought and lack of water problem in the agricultural activities. During 2010, the Company is constructing the third pipeline connecting Nongplalai – Maptaput. The Company emphasized on promoting understanding and good relationship with the surrounding communities through Corporate Social Responsibility (CSR) activities such as Young Children Development Project in Rayong. Also, the Company also donated to assist flood relief and support “Her Majesty the Queen Jubilee” via Mother of Earth Foundation. The Company also supported the Cultural Ministry to arrange His Majesty the King celebration of 83<sup>rd</sup> birthday on 5 December 2010.

- **Finance cost**

The finance costs decreased Baht 30.31 million or 25.23% from the previous year as the Company pre-paid up long-term loans valued Baht 700 million during 2009 which reduced interest expenses by Baht 32.00 million. The Company also financed its working capital by short-term loan with average interest cost of 2.75%, which is lower than those of the bank loans.

### 1.3 Financial ratio analysis for 2010 and 2009

Financial ratio	2010	2009	Difference
Raw water – gross profit margin (%)	61.69	63.88	-2.19
Tap water – gross profit margin (%)	43.51	47.91	-4.40
Total gross profit margin (%)	38.12	59.90	-21.78
Total gross profit margin* excluding Pra Sae Project (%)	57.10		-2.80
Net profit margin to total revenue (%)	19.44	28.06	-8.62
Net profit margin to total revenue* excluding Pra Sae Project (%)	27.87		-0.19
Return on equity (ROE) (%)	14.03	12.96	1.07
Return on equity (ROE)* excluding Pra Sae Project (%)	13.41		0.45
Return on assets (ROA) (%)	9.56	8.74	0.82
Return on assets (ROA) * excluding Pra Sae Project (%)	9.46	9.05	0.41
Debt to equity ratio (x)	0.49	0.44	0.05

\* In order to compare with the 2009 financial ratios, the revenue, cost of sales as well as profits after tax related to the Pra Sae Reservoir to Klong Yai Reservoir Pipeline project were excluded in the alternative calculations as parallely shown in the table.

Details of the Company's profitability ratio are as follows :

- Gross profit margin
  - Raw Water – Gross profit margin was at 61.69%, down 2.19% from the previous year, as the Company change its depreciation calculation method, which makes depreciation expenses for the accounting year ended 31 December 2010 increased by Baht 60.13 million. However, if the Company adjusts the gross margin for the year ended 31 December 2009 based on similar straight line depreciation method, the 2009 gross profit margin should be at 60.72%, which imply profitability improvement based on similar accounting practice.
  - Tap Water – Gross profit margin was at 43.51%, down 4.40% from the previous year. This is due to negative consumer price index (CPI) in 2009 at -0.8%, which result in lower water selling price as it is calculated based on the index. Also the CPI was at 3.30% during 2010, which affect the Company's expenses.
  - Total gross profit margin was at 57.10%, down 2.80% from the previous year, as a result of what being explained in the clarification on raw and tap water businesses above.
  - Net profit margin was at 27.87%, down 0.19% from the previous, due to a change in depreciation calculation method and reduced finance cost.
  - Return on equity (ROE and Return on Assets (ROA) were at 13.41% and 9.46%, respectively, an increase of 0.45% and 0.41%, respectively.

- **Debt-to-equity ratio (D/E Ratio)** was at 0.49x, up 0.05x from the previous year, as the Company is constructing the third pipeline connecting Nongplalai – Maptaput, which result in an increased loan to finance such project. However, the Company has debt service coverage ratio of 3.82x, which imply good ability to service interest expense and repayment. The Company's debt ratios are in line with those of the loan covenants, 2.0x D/E ratio and 1.1x DSCR.

## **2. Analysis of Balance Sheet**

### **2.1 Assets**

As of 31 December 2010, the Company and subsidiaries' total assets were at Baht 9,870.60, increased by Baht 722.82 million, from total asset as of 31 December 2009.

- Current assets decreased by Baht 290.07 million, driven by
  1. The reduction of project asset for sales worth Baht 646.49 million as the Company sold and transferred the Pra Sae – Klong Yai Reservoir pipeline project to the Royal Irrigation Department (RID) on 2 April 2010 and collected full payment from RID on 8 April 2010.
  2. An increase in cash and equivalent of Baht 318.32 million as the Company invested in the repurchase agreements (REPO) valued Baht 295 million to reserve cash flow for investment and working capital. The subsidiary also increased cash and equivalent by Baht 15.10 million as Chachongsao Waterworks Company Limited required that the subsidiary retain profits from operation after payment dividend in form of bank deposits.
  3. An increase of other current assets by Baht 48.44 million mainly due to the subsidiary's accounts receivable of Baht 46.73 million as a result of delay penalty of Baht 41.85 million as well as a receivable for an advance to relief its operation cashflow of Baht 2.68 million. Both receivables would be fully charged back to the contractors.
- Non-current assets increased by Baht 1,012.89 million, driven by
  1. An increase in plant, properties and equipment-net of Baht 1,015.10 million due to asset acquisition. The Company gradually recorded the progress works of the third pipeline connecting Nongplalai – Maptaput in 2010, valued Baht 1,215.60 million.
  2. A decrease in the cost of deferred concession right – net valued Baht 14.43 million as the subsidiary has written off such right in 2010 worth Baht 26.74 million. The Company also added the concession right from the main pipeline rehabilitation in Rayong Waterworks and installing water meters in Sattahip area valued total of Baht 12.31 million.
  3. An increase in other non-current asset worth Baht 16.17 million, due to two subsidiaries has pay Baht 18.00 million to secure referral right and advisory service from a foreign advisory firm specified under the terms of reference of the concession contracts with Provincial Waterworks Authority (PWA). The subsidiary recorded such transaction as the accrued expenses, which will be amortized throughout the life of the remaining concession.

4. A reduction of bank guaranteed deposit value Baht 7.00 million, which has been reclassified into current assets in current accounting period as the Company negotiate with the Bank to release the guarantee on the fixed deposit with the bank.
5. An increase in long-term investment-net of Baht 6.08 million as the Company increased its investment in Egcom Tara from 15.00% to 15.88%.

## 2.2 Liabilities

As of 31 December 2010, the Company and subsidiaries has total liabilities of Baht 3,253.68 million, increased Baht 449.62 million, from that of 31 December 2009.

- Current liabilities increased by Baht 478.23 million, driven by
  1. An increase in current portion of long-term loans of Baht 185.65 million, as the Company's long-term loan increased by Baht 150.00 million from end-2009 of Baht 100 million, making a total of Baht 250.00 million as of end-2010, according to the loan agreement between the Company and a financial institution.
  2. An increase of short-term loan from financial institute of Baht 183.59 million as the Company issue bill of exchange to finance working capital and to pay capital expenditure (CAPEX) in plant, properties and equipment to lower finance cost.
  3. An increase in account payable for fixed assets valued Baht 79.42 million, mainly driven by rising payable account from construction project of the third pipeline connecting Nongplalai – Maptaput that was Baht 51.64 million higher than the previous year. The Company also recorded an additional creditor valued Baht 13.89 million in the lawsuit concerning head office building construction according to the judgment passed by the civil court, as well as the subsidiaries' CAPEX to improve water distribution efficiency.
  4. An increase in account payable of Baht 35.32 million as a subsidiary is negotiating with a contractor by which the subsidiary hold back payment worth Baht 23.04 million and compensation valued Baht 11.85 million that the subsidiary must pay to PWA as the water distribution was below minimum requirement. However, the subsidiary is negotiating with the contractor to compensate for such losses in full amount.
- Non-current liabilities decreased Baht 28.61 million, driven by
  1. A decrease in long-term loan of Baht 95.41 million as the Company and subsidiaries draw down loans to invest in various projects worth Baht 278.00 million, but net off with Baht 187.75 million repayments during 2010. The Company also reclassified Baht 373.41 million of long-term loans as the current portion of long-term loan.
  2. An increase in retentions payable valued Baht 65.62 million mainly due to the guarantee sum that the Company deduct from the construction project of the third pipeline connecting Nongplalai-Maptaput, valued Baht 57.64 million.

## 2.3 Shareholders' equity

As of 31 December 2010, the Company's shareholders' equity was at Baht 6,614.14 million and minorities of Baht 2.79 million. The shareholders' equity increased by Baht 273.20 million from 31 December 2009, which resulted from net profits during 1 January – 31 December 2010 of Baht 908.94 million net of dividend payment of Baht 632.20 million as well as the sales of assets transferred from customers valued Baht 3.40 million.

## 3. Cash flow analysis

For the accounting year 2010 ending 31 December 2010, the Company and subsidiaries reported cash and equivalent increase of Baht 318.32 million, from the beginning balance of Baht 124.57 million, driven by.

- Net cash inflow from operating activities of Baht 2,078.14 million, driven mainly by
  - Improved operation. During 1 January – 31 December 2010, the Company reported net profit before tax of Baht 1,290.68 million, adjusted for non-cash items (depreciation and amortization) of Baht 414.99 million and net off with dividend income, interest income, interest payment and interest write-off under financial lease valued Baht 68.04 million.
  - Changes in operating assets and liabilities, which resulted in an increase in operating cash flow of Baht 692.64 million, which mainly resulted from the project asset sales.
  - The Company paid income tax of Baht 388.22 million.
- Net cash outflow to investing activities of Baht 1,298.60 million, driven by
  - The CAPEX in fixed asset valued Baht 1,274.42 million, mainly in the construction of the third pipeline connecting Nongplalai-Maptaput.
  - Purchase of the concession right and assets under waterworks business concession valued Baht 46.86 million.
  - Purchase of Egcom Tara common shares worth Baht 6.08 million.
- Net cash outflow to financing activities of Baht 461.22 million, driven by
  - Net cash inflow of Baht 270.58 million from both short and long-term loans valued Baht 41.59 million, net off with debt repayment of Baht 191.01 million.
  - Dividend payment of Baht 632.34 million and interest payment of Baht 99.46 million.

Therefore, as of 31 December 2010, the Company and subsidiaries has cash and equivalent of Baht 442.88 million.